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U.S. Economy Gets Lift From Stimulus

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WASHINGTON -- Government efforts to funnel hundreds of billions of dollars into the U.S. economy appear to be helping the U.S. climb out of the worst recession in decades.

A load operator at Auto Parts Plus in Stafford, Va., crushes a car last week that was traded in during the 'cash for clunkers' program.

But there's little agreement about which programs are having the biggest impact. Some economists argue that efforts such as the Federal Reserve's aggressive buying of Treasury debt and mortgage-backed securities, as well as government efforts to shore up banks, are providing a bigger boost than the administration's \$787 billion stimulus package.

The U.S. economy is beginning to show signs of improvement, with many economists asserting the worst is past and data pointing to stronger-than-expected growth. On Tuesday, data showed manufacturing grew in August for the first time in more than a year. "There's a method to the madness. We're getting out of this," said Brian Bethune, chief U.S. financial economist at IHS Global Insight.

Much of the stimulus spending is just beginning to trickle through the economy, with spending expected to peak sometime later this year or in early 2010. The government has funneled about \$60 billion of the \$288 billion in promised tax cuts to U.S. households, while about \$84 billion of the \$499 billion in spending has been paid. About \$200 billion has been promised to certain projects, such as infrastructure and energy projects.

U.S. Treasury Secretary Timothy Geithner speaks last month at the construction site of a new elementary school in Berea, Ohio.

Economists say the money out the door -- combined with the expectation of additional funds flowing soon -- is fueling growth above where it would have been without any government action.

Many forecasters say stimulus spending is adding two to three percentage points to economic growth in the second and third quarters, when measured at an annual rate. The impact in the second quarter, calculated by analyzing how the extra funds flowing into the economy boost consumption, investment and spending, helped slow the rate of decline and will lay the groundwork for positive growth in the third quarter -- something that seemed almost implausible just a few months ago. Some economists say the 1% contraction in the second quarter would have been far worse, possibly as much as 3.2%, if not for the stimulus.

For the third quarter, economists at Goldman Sachs & Co. predict the U.S. economy will grow by 3.3%. "Without that extra stimulus, we would be somewhere around zero," said Jan Hatzius, chief U.S. economist for Goldman.

Dave Anderson, chief financial officer of Honeywell International Inc., said the stimulus package actually froze business activity at first as firms tried to figure out how they could benefit from the government spending. The \$787 billion package "created actually a slowdown in order activity in terms of the flow that we would normally have anticipated," Mr. Anderson said at a conference sponsored by Morgan Stanley. "We anticipate that that's going to actually pick up in the second half of the year. I think it's not unreasonable to see several hundred million dollars of orders."

Opinion, however, remains split about which program has had the biggest impact. "I don't think the stimulus was necessarily as effective as people claimed it to be or claim it will be," said Joseph LaVorgna, chief U.S. economist with Deutsche Bank Securities Inc. He credits the government's "stress tests" of banks, which helped boost confidence on Wall Street and allow banks to raise capital and resume lending.

Economists say other programs are having an impact, including an \$8,000 tax credit for first-time home-buyers that has spurred home sales. The cash-for-clunkers program, which provided financial incentives for consumers to trade in older vehicles, did the same for cars.

One big question: Will the boost evaporate once the programs end?

Stuart Hoffman, chief U.S. economist for PNC Financial Services Group, said the stimulus package "caused this bit of a concentrated burst [that] probably will exaggerate the pace of economic growth," since some areas, such as auto sales, could fall back to low levels.

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